CALIFORNIA ALTERNATIVE ENERGY AND ADVANCED
TRANSPORTATION FINANCING AUTHORITY

PACE Loss Reserve Program
Background and History

September 10, 2014

About PACE Financing

Property Assessed Clean Energy (PACE) is a growing and innovative method of financing energy efficiency, water efficiency, or renewable energy retrofits or electric vehicle charging stations for residential and commercial properties. PACE financing is available in specific jurisdictions, or PACE districts, in which the local governments have authorized special taxes or contractual assessments for these improvements. Property owners in a PACE district can use PACE financing to retrofit their homes or businesses with no money down and pay for the assessment through their local property tax bill. PACE assessments are associated with the property, not the property owner, and therefore may transfer to the new owner upon the sale of the property. CAEATFA itself does not administer PACE financing.

Since PACE assessments are collected through property taxes, they have priority over other property-based debts in a foreclosure. While this priority allows PACE programs to offer lower interest rates, the Federal Housing Finance Agency (FHFA) raised concerns that residential PACE financing may result in additional risk to mortgage lenders because of PACE's first-priority lien structure. Due to these concerns, in August of 2010 Fannie Mae and Freddie Mac announced they would no longer purchase mortgages for homes with first lien priority PACE obligations, leading many PACE administrators to suspend their residential programs.

Creation of the PACE Loss Reserve Program

The State of California and several other parties sued FHFA for not conducting a formal rulemaking before its decision; however, the 9th Circuit Court of Appeals ruled in FHFA's favor in March of 2013. In the meantime, many residential PACE programs had launched or restarted with the understanding that homeowners might have to pay off their PACE liens in full before refinancing or selling their homes. In September of 2013, Governor Jerry Brown signed Senate Bill 96 into law, authorizing CAEATFA to establish a PACE Loss Reserve Program (the Program) to assist in addressing FHFA's financial concerns and support these residential PACE financing programs.

CAEATFA launched the Program in March of 2014 and initially enrolled 8 PACE programs in June, representing 25 counties and 264 cities. In correspondence with CAEATFA, FHFA has retained its initial concern with the first-priority lien inherent to the PACE financing structure. Nonetheless, CAEATFA believes the Program is a positive first-step in supporting residential PACE and making financing available to more homeowners in California. Many PACE administrators have already enrolled in the PACE Loss Reserve Program and continue to offer residential PACE financing in a growing number of areas in California. In addition to protecting first mortgage lenders from losses attributable to PACE liens, the Program will collect necessary data on the performance of PACE financing over time, something FHFA has stated is required to better understand the actual risk to mortgage lenders. The information the PACE Loss Reserve Program collects will be valuable to policymakers and may inform future best practices and standards for residential PACE financing.

For more information on CAEATFA's PACE Loss Reserve Program, visit:

http://www.treasurer.ca.gov/caeatfa/pace/index.asp

or call (916) 651-8157.

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